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DISCUSSION PAPER

FEDERAL INCOME SECURITY PROGRAMS FOR FAMILIES WITH CHILDREN

prepared by Louise Dulude for the CACSW

January 1980



**Canadian Advisory Council
on the Status of Women**

Box 1541 Station B, Ottawa K1P 5R5

**Conseil consultatif canadien
de la situation de la femme**

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DISCUSSION PAPER
ON FEDERAL INCOME SECURITY PROGRAMS FOR FAMILIES WITH CHILDREN

Prepared by Louise Dulude for the Canadian Advisory Council
on the Status of Women, January 1980

Description of Present Programs

The three main components of the federal government's child benefit system are: 1) family allowances; 2) tax exemptions for dependent children; and 3) the new refundable child tax credit. Overall, these three programs cost some \$3.1 billion in 1979.

Family allowances have been in existence since 1945. They currently amount to \$21.80 a month - \$262 a year - for each dependent child aged less than 18. (In Quebec benefits vary according to the number of children in a family and their ages, and in Alberta according to age only; however, total payments for all children taken together in each of these provinces still average \$21.80.) The allowances are paid to all mothers irrespective of their own or their husbands' incomes, and are taxed by being included in the income of whichever parent claims the tax exemption for the same children (usually the father). For the 1979 fiscal year, the net cost of the allowances was about \$1.1 billion. This involved an outlay of \$1.7 billion, of which about \$600 million was recovered through tax.

Federal tax exemptions for dependent children benefit taxpayers by reducing the amount of income on which they must pay tax. For the 1979 taxation year, a parent can deduct from his/her taxable income \$500 for each dependent child aged under 17, and \$910 each for older dependent children. Because of these exemptions, the federal and provincial governments will forego some \$1.2 billion in tax revenue for 1979.

The refundable child tax credit, which was introduced in 1978, paid \$200 per year per child last year to mothers whose net family incomes were \$18,000 or less. When the net family income exceeded \$18,000, the credit was reduced by 5% of the excess. The cost of this program was \$800 million in 1979.

As the following table illustrates by showing the benefits received in 1979 by Ontario two-parent families with two young children and a wife at home, the effects of these three child benefit programs are uneven and vary greatly according to family income.

<u>Family income</u>	<u>After-tax fam. allowances</u>	<u>Child tax credit</u>	<u>Tax savings from exemptions</u>	<u>Total benefits</u>
\$ 7,000 or less	\$ 480	\$ 400	\$ 0	\$ 880
10,000	355	400	260	1,015
15,000	340	400	297	1,037
18,000	335	400	315	1,050
22,000	318	200	338	856
26,000	299	0	378	677
30,000	281	0	423	704
50,000	231	0	518	749

Family allowances, because they are taxed, give greatest benefits to the poorest families. Refundable child tax credit benefits stay the same until family incomes reach \$18,000, and then taper off and disappear at high income levels. The children's exemptions, like all exemptions and deductions, provide benefits that are linked to a taxpayer's marginal tax rate, with the result that they give greatest benefits to

those with the highest incomes and nothing at all to those so poor that they are below the tax-paying threshold.

The overall effect of the children's benefit system resembles a roller-coaster. Total benefits are \$880 for the poorest families, rise with incomes to reach a maximum of \$1,050 when family income is at \$18,000, dive down to \$677 at an income level of \$26,000, and increase again to \$749 for a family income of \$50,000.

Another way to look at children's benefits is to see what portion of them goes to each of the parents. In the same example of an Ontario two-parent family with two young children and a wife who stays home, the benefits would have been distributed as follows between the spouses:

<u>Family income</u>	<u>Benefits paid to the father</u>	<u>Benefits paid to the mother</u>	<u>% of all benefits paid to the mother</u>
\$ 7,000 or less	\$ 0	\$ 880	100%
10,000	135	880	87%
15,000	157	880	85%
18,000	170	880	84%
22,000	176	680	79%
26,000	197	480	71%
30,000	224	480	68%
50,000	269	480	64%

It can be concluded from the above that: 1) women get the lion's share of federal child-related benefits; 2) contrary to mothers' benefits, those received by fathers start at zero for those with low incomes and increase as their incomes

rise; and 3) women's share of the benefits diminishes steadily as family income rises: it goes from 100% of all benefits at family incomes under \$7,000 to 64% at a family income of \$50,000.

Proposals for Change

The many proposals for change in the child-benefit system that have been made in the last few years can be divided into three broad categories. The first, which includes recommendations made by the Royal Commission on the Status of Women, the Canadian Advisory Council on the Status of Women, the National Action Committee on the Status of Women and the Quebec Status of Women Council, aim at increasing benefits paid out to mothers of dependent children.

Specifically, the Royal Commission on the Status of Women proposed in 1970 that tax exemptions for dependent children be abolished and that parents' needs be met through a taxable family allowance of \$500 per year per child (about \$1,000 in today's dollars). The CACSW's recommendations, presented to the federal government in 1977, were very similar but less ambitious. It requested "that children's exemptions be abolished and the funds thereby saved be used to increase taxable family allowances". The National Action Committee adopted an identical resolution at its annual meeting the same year.

The Quebec Status of Women Council, in its 1978 plan of action for Quebec women (Pour les Québécoises: égalité et indépendance), also favoured the abolition of the children's exemptions and a corresponding increase in family allowances. Furthermore, it requested that governments strive to bring the allowances closer to the real cost of maintaining a child, and asked that the allowances be taxed in the hands of the lower-income spouse.

The second category of proposals for changing the child benefit system came from people and groups whose concern was to increase benefits given to low-income parents. The most important of these proposals, which was put forward and then implemented by the then-Liberal federal government in 1978, consisted of partially reducing existing children's benefits and using this money to pay for the new refundable child tax credit for families with lower-than-average incomes. The benefits which were affected included the family allowances (brought back from \$25.68 a month to \$20), the tax exemption for dependent children aged 16 and 17 (reduced to the same level as the exemption for younger children), and a then-existing \$50 tax credit per child (which was entirely eliminated).

Other recommendations aimed at increasing poor people's benefits came from:

- 1) The National Council of Welfare, which had recommended at the beginning of 1978, in its report entitled Bearing the Burden, Sharing the Benefits, "that the tax exemption for dependent children be eliminated and that the money thus saved be used to institute a refundable tax credit". As mentioned above, the Liberal government partially implemented that recommendation by introducing a refundable child tax credit later in 1978, but it did not eliminate the tax exemption for dependent children. On family allowances, the position of the National Council of Welfare was that they should be retained, for the time being, in their existing form.
- 2) The Ontario Economic Council, in its Issues and Alternatives: Update 1979. Ignoring the tax exemption for children, this council proposed the total elimination of family allowances and the redirection of this money towards a "complete reform of the income security system", including in particular an income supplementation program for the working poor.

3) The Canadian Council on Social Development (CCSD), which recommended in April 1979 that family allowances "be recovered entirely from families with incomes above average family income" and that all the money saved by such a move be redirected to the poor. The CCSD also noted that "if additional funds are being sought for the alleviation of poverty", the government could also abolish the income tax deduction for children and use it "for an improved (refundable) child tax credit or in taking the first step towards an income supplementation program for the working poor".

Thirdly, it came to light two months ago that the Conservative government intended to make further changes in the children's benefit system with the main purpose of reducing the total budget allocated to helping parents.

The proposal reportedly approved by the Cabinet involved the following moves: a total elimination of family allowances, an increase in the refundable child tax credit by the amount of the allowance, and a reduction of the children's exemption by the same amount.

Such changes would have little or no effect on families with lower-than-average incomes, who would get back from the credit what they lost of the allowance. Nor would they affect upper-income men, whose loss on the one hand (through the reduction in the tax exemption for children) would be exactly made up on the other (because they would no longer have to include family allowances in their taxable incomes). The only losers would be the wives whose family incomes are above the average. As personal incomes would not be taken into account, these losers would include many women with no direct source of income of their own.

Analysis

In view of these proposals for change, it is clear that individuals and groups wanting to affect the policy-making

process in the area of children's benefits must have a position on a) whether the total amount currently devoted to children's benefits should be diminished to help reduce the federal deficit or to finance other non-related programs (such as the Conservatives' proposed mortgage interest credit, for example); and b) whether children's benefits should be rearranged to give more to the poor and less or nothing to the rich, and, if so, how this could be achieved equitably.

The first question presents little difficulty. As the total amount of child-related benefits that parents receive from the federal government (including the family allowance, the refundable credit and the tax exemption) still falls far short of the money needed to ensure a minimum decent standard of living to all Canadian children, no constructive purpose can be achieved by reducing the relatively modest sums currently devoted to helping parents. Therefore, while many of the voluntary organizations mentioned earlier would welcome a government move to redistribute children's benefits in favour of low-income families, they would probably all oppose a reduction in the overall budget for children's benefits.

The second question, dealing with the desirability of redistributing children's benefits to give more to poor families, is more complex and much more controversial. For a start, almost everyone involved in this debate agrees that low-income parents should get larger benefits. The point of disagreement is whether the money for this increase should come from family allowances, from the tax exemptions for children, or from both.

While few women's groups have addressed this specific issue, their recommendations on related issues make it clear that they favour getting the required funds through a reduction in the tax exemption for children (which benefits mainly men and increases as income rises) rather than from family allowances.

On the other hand, both the previous Liberal government (by the way it funded the new refundable child credit in 1978) and the Conservative one (as expressed in its recent proposals seen above) have shown a marked preference towards reducing family allowances (which go to women and decrease as family income rises). This apparently irrational tendency on the part of government to prefer the retention of the tax exemption for children, which is the most inequitable of the children's benefit programs, is based on two political facts: a) additional government revenues resulting from reducing or abolishing a tax exemption do not show up as spending cuts in the government's published budget; and b) women are believed to be insignificant as a political force - witness the fact that they didn't even protest when the regular cost-of-living increase of family allowances was cancelled in 1976.

For these reasons, and because few people understand how the tax system works, the debate over redistributing children's benefits to the advantage of the poor has mainly been perceived as a fight between the defenders and the opponents of universal family allowances (the so-called universality vs. selectivity debate). Those in favour of universal allowances maintain that these benefits should continue to be given to all mothers because they are the only recognition by society of the value of women's child-rearing work. The opponents of universality say that it is wasteful, in the present era of spending restraints, to make family allowance payments to parents who don't need them. They have called for the allowance to be abolished for families with above-average incomes.

An important fact that is often forgotten in this debate, and which was recently pointed out by the National Council of Welfare (in its report Women and Poverty) is that the wives of high-income husbands are not necessarily well off themselves. "As long as Canadian laws deny married women an equitable share of their family's financial resources", says

the council, "it would be unreasonable to take away from them a long-standing right such as the family allowance on the assumption that their husbands' income is also their own." Until marital property laws are reformed to make the spouses financially equal during marriage as well as at the end of it, therefore, the only fair test of income for purposes of the family allowance is one that would take personal in addition to family income into consideration.

Conclusion

From women's point of view, the main problem with the current debate surrounding children's benefits is that politicians are presenting the various policy options to the public in a way that completely misrepresents the choices. What the Conservative government was saying to the public is: "We need money to help the poor. The only source of money available is the family allowances that are now given to rich people. To oppose the elimination of family allowance payments to the rich is to be against the poor."

In reality, the most inequitable and most expensive child benefit program in existence today is not the family allowance but the tax exemption for dependent children; family allowances are the only direct source of income of many mothers who are married to well-off men; and the main reason politicians want to reduce children's benefits is not to help the poor but to save money or finance other programs.

If women want to be heard in this debate, they must publicize this reality and assert their important stake in these issues. Specifically, they could put forward the following, which are the positions most in line with women's interests:

- Total benefits currently devoted to children should not be reduced.

- If children's benefits are rearranged to increase the amounts given to low-income families, the first step in this redistribution should be the abolition of the tax exemption for dependent children, not the reduction or abolition of family allowances.

- As long as Canadian women do not have a right to an equitable share of their family's financial resources during marriage, family allowances should not be taken away from them on the assumption that their husbands' income is also their own. At the present time, the only income test that would not be unfair to women is one that would take their personal as well as their family income into consideration.
